DOCUMENT RESUME

ED 238 819 SO 015 381

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TITLE	International Trade: U.S./U.S.S.R. Instructor's Guide [and] Student Materials. Business Issues in the Classroom.
INSTITUTION	Constitutional Rights Foundation, Los Angeles, Calif.
PUB DATE	83
NOTE	38p.; For related documents, see SO 015 366-380.
AVAILABLE FROM	Constitutional Rights Foundation, 1510 Cotner Ave., Los Angeles, CA 90025 ($4.95).
PUB TYPE	Guides - Classroom Use - Materials (For Learner) (051) -- Guides - Classroom Use - Guides (For Teachers) (052)
EDRS PRICE	MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS	Business; Comparative Analysis; Cross Cultural Studies; Economic Climate; Economic Factors; *Economics Education; Exports; *Foreign Policy; *Government Role; Instructional Materials; International Studies; *International Trade; Political Influences; Program Descriptions; Secondary Education; Social Studies; Units of Study
IDENTIFIERS	*United States; *USSR

ABSTRACT

One of a series of units on business issues designed for secondary school students, this packet examines United States and Soviet trade within the context of worldwide economic and political associations. Introductory in nature, the 5-day unit is suitable for use by itself or as part of a larger study of comparative economic systems, American foreign policy, or Soviet international studies. Teacher and student materials are provided in separate sections. The teacher's guide contains five detailed lesson plans, recommendations for follow-up activities, answer keys, student handouts, and background information. Following an overview of the American and Soviet trade situation, the student materials section examines trade barrier restrictions, trading patterns, and trade as a political weapon. Eight student activities include two introductory cases, one set in the Soviet Union, the other in Minnesota. The case studies illustrate the economic differences between the two countries and the impact of governments on individual businesses. Other activities include readings on trade patterns and governmental tools to control trade; map study; skill building exercises using statistical charts and graphs; and a panel discussion about the Soviet pipeline. (LP)

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INTERNATIONAL TRADE: U.S./U.S.S.R.

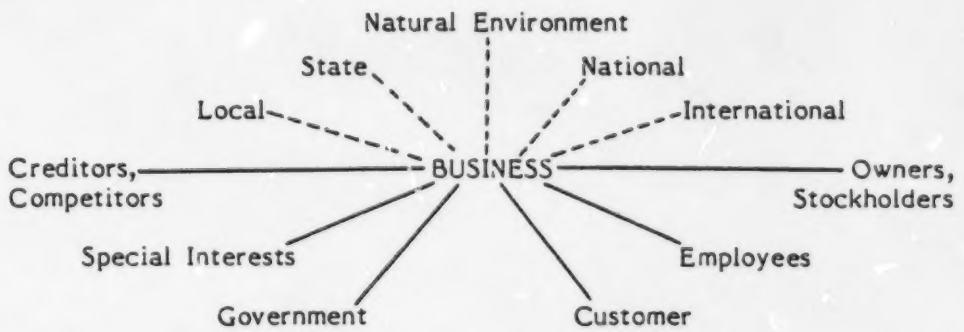
Instructor's Guide

Author: Phyllis F. Maxey
Business Issues in the Classroom
Constitutional Rights Foundation
Los Angeles, California
1983

SO 015 381

INTERNATIONAL TRADE: U.S./U.S.S.R.

Business Issues in the Classroom (BIC) introduces students to exciting, difficult, and complex decisions that face the business community today. Case studies and activities help students understand the setting in which American companies must function. This business environment includes many groups with conflicting interests: stockholders, consumers, employees, special interest groups, business competitors and creditors, and government. These groups affect business and, in turn, are affected by business decisions. Each BIC lesson plan focuses on a specific issue which highlights a particular relationship in the business decision-making environment.



THE BUSINESS DECISION-MAKING ENVIRONMENT

This unit examines U.S./Soviet trade within the context of worldwide economic and political links. Students learn the major trading partners of both of these countries and discover that despite their power and resources, trade between the United States and the Soviet Union is a very small part of international business transactions. Students learn that trade can be used by governments as a political weapon to weaken an enemy or support a friendly nation. Students have the opportunity to debate an American policy decision regarding the building of a Soviet pipeline to Western Europe. In a panel discussion based on the actual pipeline incident in 1981, students consider the arguments of the U.S. government, their Western European allies, and American business leaders.

A one-week unit can only begin to open up the complex world of international business. The teacher may wish to use this unit as part of a larger study of comparative economic systems, American foreign policy, an area study of the U.S.S.R., international finance, or a variety of international studies.

Activities include two introductory cases, one set in the Soviet Union and the other in Minneapolis, Minnesota, to illustrate economic differences between the two countries and the impact governments can have on individual businesses. Readings on the reasons for trade among nations and the tools that governments use to control that trade are included. A map study gives students a review of world geography with emphasis on four areas: the Soviet Union, Eastern Europe, the United States, and Western Europe. Skill in reading statistical charts and graphs is tested in a true/false quiz. A profile of the Soviet economy is followed by a panel discussion about the Soviet pipeline from Siberia to Western Europe. A Vocabulary Worksheet helps students review new terms introduced in the unit.

OBJECTIVES

Students will be able to:

1. describe at least three ways in which governments control international trade.
2. define the law of comparative advantage and give two examples.
3. distinguish between blocs referred to as East and West.
4. locate Western Europe, the U.S., Eastern Europe, and the U.S.S.R. on a world map.
5. describe ways in which international trade becomes a political weapon.
6. make a decision supporting or rejecting a policy that forbids American companies to sell parts to the Soviet Union to build a pipeline to Western Europe.

TIME FRAME

5 class periods plus homework assignments

CLASSROOM APPLICATIONS

Day 1 Preassessment: The unit assumes students have a minimal knowledge of world geography and can state basic economic and political differences between the U.S. and the Soviet Union. General questions can be used to determine student knowledge, such as, "Can someone show us where Western Europe is on this map?" and "How many would agree that the Soviet Union is bigger than the U.S.? How many would disagree?"

Discussion: Read the introductory case studies together, p. 2-3, and use the discussion questions that follow the second case. Students' knowledge of political and economic differences between the U.S. and the Soviet Union should be revealed by their answers to the discussion questions. Students should read "International Trade," p. 4-7, for homework.

Day 2 Reading and Discussion: Refer students to the reading review questions on p. 8. You may wish to assign particular questions to be written in their notebooks, such as the definitions of important terms. Discuss the review questions with special attention to the three topics raised in the reading: Why do nations trade with others? How do governments control trade? Who resolves the conflicts?

Day 3 Small Group Work and Discussion: Divide the class into pairs or groups of four to five students. Give each group the Map Study sheet on p. 9 in the Student Materials. If possible, have several wall maps showing world political divisions available for their reference. Each group should have one or more smaller maps in atlases or their textbooks.

Each group will work together to locate all of the places on the Map Study and answer the questions at the bottom of the page. You may wish to collect their papers and review their knowledge before of the class. Students should read "The Soviet Economy," p. 14-15, for homework.

Day 4 Activity: Distribute copies of "Profile of the Soviet Union," p. 10-13. Ask each student to study the charts and then take the quiz on p. 13. Answers to the quiz are provided in this guide on p. 7. Review the correct answers and discuss the Soviet economy with the class. Assign roles for the Panel Discussion on the Soviet pipeline, distributing role descriptions found on p. 10-15 of this guide.

PANEL MEMBERS:

Moderator
American business executive
French government representative
Italian government official
British government representative
Former U.S. Ambassador to the U.S.S.R.
U.S. State Department representative
U.S. Senator
Professor of International Relations
Chairperson of Foreign Relations Committee, U.S. Congress
Undersecretary, U.S. Department of Defense

Day 5 Panel Discussion: The panel members and moderator should assemble in the front of the class with their roles written on name cards on their desks. The moderator will introduce panel members, briefly discuss the issue, ask for each panel member's comments, and then ask for questions from the audience.

After the panel discussion, use the following debriefing questions to involve the class in a discussion of the issue. Draw a chart on the chalkboard similar to the following:

The Soviet Pipeline	
For	Against

1. What are some of the arguments that the supporters of the pipeline gave to defend their position?
2. What are some of the arguments you heard from the opponents?
3. Which side do you find more convincing? Why?
4. The U.S. Undersecretary quoted the famous communist writer and leader, Vladimir Lenin, "The capitalists would gladly sell the rope with which they would be hung." What did Lenin mean?
5. Does anyone know what finally happened with the pipeline? Did the U.S. apply sanctions? Is the pipeline going to be built?

Note to teacher: Sanctions against sales of U.S. equipment for the Soviet pipeline were imposed in December 1981 by President Reagan, provoking an angry response from American business and from Western Europeans. In November 1982, the President lifted those sanctions in an attempt to ease the tensions in the Western alliance.

USING A RESOURCE PERSON IN THE CLASSROOM

The Business Issues in the Classroom (BIC) program has a talented group of business professionals who are prepared to teach one day of this lesson. At least two weeks in advance, call the Constitutional Rights Foundation at (213) 473-5091 and ask the placement coordinator to arrange a classroom visit.

The business person could participate in the following ways:

Day 2: Discuss the issues raised in the reading on international trade. Students should have completed the reading before the business person's visit.

Day 6: Debrief the Panel Discussion, using this case as well as other examples of political influence on international trade.

FOLLOW-UP:

Throughout this unit students may have questions about international trade, current issues, and the actual process of organizing the shipment of goods abroad. The teacher might collect student questions and contact the Constitutional Rights Foundation to arrange for a classroom visit by a resource expert. Questions could be sent to the business person in advance.

A recent case of government involvement in international business is the shooting down of a Korean airliner by the Soviet Union in September 1983. A commentary on this case is included in the Teacher Background section of this guide on p. 16-17.

To test students' ability to apply their reasoning in the pipeline case to a new situation, the teacher might use this incident with the Korean airliner as an assignment for a paper or essay.

The Case of Flight 007

Reports of the shooting down of a Korean passenger jet by the Soviet Union were greeted with disbelief and outrage around the world. Soviet fighter jets fired missiles at the plane after it invaded Soviet airspace, flying over an area of sensitive military operations. Two hundred sixty-nine people were killed. Soviet officials claimed that the plane was on a U.S. spy mission and that any other planes violating Soviet airspace would also be shot down. There was no explanation for the plane being off course on its international flight, but some experts attributed it to computer errors in data entry. U.S. officials later admitted that it would have been difficult to recognize the jet as a passenger plane.

Your opinion: Write an essay in which you support or reject the following U.S. responses to the incident. State your reasons as clearly as possible for or against an interruption of international trade.

Because of the brutal and unprovoked attack on the Korean Airlines passenger jet by the Soviet Union, the U.S. will:

1. sever all business ties with the Soviet airline, Aeroflot. Aeroflot offices will be closed and landing privileges revoked.
2. stop all grain exports to the Soviet Union.
3. stop all trade with the Soviet Union.
4. urge the United Nations to apply sanctions against the Soviets.
5. urge our Allies to join us in halting trade with the Soviets.
6. other: _____

Answers to Fact Quiz, p. 13

1. True 2. True 3. False -- Soviet exports to the U.S. are less than 1%, imports are 4.5% 4. True 5. False -- fuels, lubricants, and chemicals are more important 6. True -- $1,600 million = $1.6 billion 7. True 8. False -- Canada 9. False -- West Germany, Japan, and Finland are more important partners 10. False -- 11% comes from Latin America alone 11. False -- the EEC is composed of West European countries 12. True 13. False -- exports are only 9%, imports are 13% 14. False -- exports are 1%, imports are 4% 15. True

Answers to "International Trade," Reading Review p. 8

1. Exports are goods sold to another country; imports are goods purchased from foreign countries. Plastics, sophisticated electronics gear, and arms and ammunition cannot be exported to the Soviets.

2. The economic law of comparative advantage states that each region will tend to produce those goods and services in which it has the greatest advantage or the least comparative disadvantage.

3. No, the American company must work through the Soviet government.

4. A tariff is a tax on imports used to protect domestic industries from foreign competition. Tariffs are used for military reasons, as protection against dumping, and to support infant industries.

5. Licenses, quotas, embargoes, and sanctions.

6. Yes, but far less than in a country such as the Soviet Union. The U.S. has used trade as a political weapon which affects the freedom of American business to buy and sell in the global marketplace.

7. General Agreement on Tariffs and Trade, a group of 88 nations that established rules for international trade.

8. The European Economic Community (EEC) is a regional organization that unites countries of Western Europe in economic policies.

9. The West is a term used to refer to countries who usually have democratically elected governments and market economies. Examples of Western countries would be the U.S., Great Britain, France, and West Germany. The East is made up of communist countries with centrally planned economies, such as the U.S.S.R., the People's Republic of China, Cuba, and Poland.

10. The Organization for Economic Cooperation and Development (OECD) consists of: Australia, Austria, Belgium, Canada, Denmark, Finland,

France, West Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, and the United States.

11. The members of the Council for Mutual Economic Assistance (COMECON) are: Bulgaria, Cuba, Czechoslovakia, East Germany, Hungary, Mongolia, Poland, Romania, Union of Soviet Socialist Republics (U.S.S.R.), and Vietnam.

12. Nations trade with others to obtain goods and services that are scarce or nonexistent within their nations, and to obtain goods and services at a lower cost or higher quality than domestic productions would allow.

Answers to Vocabulary Worksheet, p. 18

1. Domestic 2. Quota 3. Dumping 4. Tariff 5. Sanctions 6. Imports
7. Exports 8. License 9. Embargo 10 - 14. Answers will vary

THE PIPELINE PANEL

PARTICIPANTS AND THEIR VIEWS:

Moderator:

Your role in this panel discussion will be to: (1) introduce the issue, (2) introduce the panel members, (3) ask each to present their views, and (4) field questions from the audience.

The issue:

- o The U.S. is considering ways to obstruct the building of a Soviet-European natural gas pipeline.
- o The U.S. government wants to impose sanctions against any U.S. firm or its foreign branches that sell pipeline parts to the Soviets.
- o The Yamal pipeline would carry natural gas from Siberia in the northernmost part of the Soviet Union to Western Europe.
- o Many American firms and foreign firms operating under American licenses have already signed contracts to provide equipment to the Soviets for the pipeline.
- o These companies, if sanctions were applied, would not be allowed to ship the goods in the contracts. If they did, they could be fined and barred from selling goods and services in the U.S.

1. American business executive, producer of oil field equipment
   - o Opposed to pipeline sanctions
   - o American companies could lose $2 billion in sales.
   - o Russia will not be hurt; it can buy the equipment from the Japanese or Europeans if the Americans won't trade with them.
   - o Europeans and Americans will lose jobs and income.
   - o The failure of American companies to honor international contracts will encourage nations to do business with suppliers who are more reliable.

2. French government representative
   - o Opposed to pipeline sanctions
   - o France needs the natural gas supplies from Russia.
   - o France and other European countries need to broaden their sources of energy supplies. Right now there is too much energy dependence on Africa and the Middle East, an area more unreliable and far less stable than Russia.
   - o Standby capacity storage facilities can be built to discourage Russia from supply cut-offs and blackmail.
   - o Austria has had use of a Soviet pipeline and their experience has been very positive with no blackmail or disruptions of service.
   - o Although this pipeline will make us more dependent on the Soviet Union, we believe that is better than our present heavy dependence on Africa and the Middle East. We must have oil and gas.

3. Italian government official
   - o Opposed to pipeline sanctions
   - o The U.S. is acting like a bully, imposing its will on smaller countries.
   - o Italy intends to honor all of its contracts with the Russians, regardless of what America does.
   - o The U.S. could start a trade war where sanctions, embargoes, and tariffs are used by countries to punish each other.
   - o Our people need the jobs that are created by supplying the Russians with pipeline equipment.
   - o Italy needs energy suppliers, and the Soviet pipeline is a vital source.
   - o Italy will follow its best interests. The U.S. has no right to impose its national interest on people outside of its territory.

4. British government representative
   - o Opposed to pipeline sanctions
   - o The U.S. made a serious diplomatic error in going public with this issue. Private discussions with members of the Western alliance would have been the proper course of action.
   - o Political and economic concerns of Europeans do not seem very important compared to the anti-Russian feelings of some American government officials.
   - o Great Britain stands to benefit from sales of pipeline equipment. It means millions of dollars in jobs, sales, and future business contracts.
   - o Poland's political situation will not be changed by U.S. sanctions.

5. Former U.S. Ambassador to the U.S.S.R.
   - o Opposed to pipeline sanctions
   - o We are living in an era of multinational business, not American dominated business. We cannot call the plays, using foreign trade as a weapon.
   - o It takes time to establish international trade connections. American companies are going to be reluctant to invest in production that the U.S. government might decide to use as a political weapon.
   - o Sanctions are an example of "light-switch diplomacy" -- flick a switch and stop trade, flick it again and trade will come back. Our trading partners will not put up with it. They will find more reliable suppliers.
   - o If the U.S. ever wants to resume trade with the East and flicks the switch, the light may not go on.

6. Representative of the U.S. State Department
   - o Supports pipeline sanctions
   - o Western Europe has more to fear from Soviet aggression than from running out of energy supplies.
   - o The pipeline makes Western Europe too dependent on Russia. Russia could threaten to cut off supplies unless European policies are in agreement with Russia.
   - o Russians have used "pipeline blackmail" in the past, against Finland -- withholding supplies until a pro-Russian leader was put into power. and against China for anti-Soviet views.
   - o The U.S. can assist the Western Europeans in locating new energy resources. It will be far more difficult to fight Russian influence on European affairs because of this energy dependence.

7. U.S. Senator
   - o Supports the pipeline sanctions
   - o The Soviet Union is our enemy. Their design is to defeat the West and take over the world.
   - o Why help the enemy? Anything the U.S. can do to make life more difficult for the Russians will weaken the communist government and help the Russian people overthrow these dictators.
   - o The Russians need the high technology and expertise of the U.S. to build that pipeline. Why sell them technology that they will use to build up their military -- a military designed to defeat the U.S. and its allies?
   - o Economic pressure should be applied to the Soviet Union whenever possible, especially now, in retaliation for their harsh suppression of the freedom of the Polish people.

8. Professor of International Relations
   - o Supports pipeline sanctions
   - o Russians desperately need foreign exchange earnings so that they have enough to trade with the West. They need food, electronics gear, agriculture technology, and many other resources of the West.
   - o The only export they have to earn foreign exchange credit is energy. The pipeline will mean millions of dollars in credit.
   - o Without these energy sales, the Russians will have little money for buying high technology equipment and know-how. It will hurt them economically and militarily
   - o Pipeline sanctions can be an effective means of reducing Russian access to world trade and technological progress.

9. Chairperson of Foreign Relations Committee, U.S. Congress
   - o Supports pipeline sanctions
   - o U.S. must take strong action against the kind of action Russia has taken with Poland. We must condemn the loss of civil liberties and the crushing of dissent by the Communists. The Polish people are suffering under the Communist regime. Their leaders have been thrown in prison.
   - o U.S. and Europe must help Eastern Europe break away from Soviet control. We cannot do that by making Russia stronger and more influential. The pipeline will strengthen Soviet power in Europe.
   - o U.S. should punish the Russians for their sanctions against the Polish people who are fighting for democracy and freedom. If the Russians should change their ways, the sanctions can be lifted. Otherwise, the West should offer them no help in this project.

10. Undersecretary, U.S. Department of Defense, former head of a high-technology multinational corporation
    - o Supports pipeline sanctions
    - o Profit is not the only thing about which Western Europeans need to worry. Lenin said, "The capitalists would gladly sell the rope with which they would be hung." The security of Europe and the U.S. is at stake. Companys' profits are secondary.
    - o Our sale of high technology equipment to the Russians could come back to haunt us. The Russian invasion of Afghanistan was carried out with trucks made in a Russian factory that American business helped build.
    - o By stopping grain sales and limiting foreign exchange credits for the Russians, we can force them to use their resources for producing food and other necessities of the people. This takes away resources from their military build-up.

BACKGROUND INFORMATION

Los Angeles Times
Sunday, September 11, 1983

James Flanigan

U.S. Must Take Care Not to Aim Trade Weapon At Its Own Foot

Less than two weeks after the U.S. signed a new and uninterruptible grain agreement and also lifted a ban on sales of Caterpillar pipe-laying equipment, the Soviet Union shot down a Korean Airlines 747, killing 269 people.

So much for the civilizing effect of commerce, is our exasperated first reaction. But we should question it. Commerce may not, in fact, make civilization. But it does provide a vital assist. More important, withholding commerce presents us with more dangers than opportunities—unless we in the West are in agreement on when and how such sanctions should be applied.

The issue is before us this month because Congress, when it returns, will take up renewal of the Export Administration Act. That is the basic law, on the books since 1949, that governs how and why the President can move to embargo exports, or limit imports, for reasons of national security, foreign policy or scarcity.

Before the Korean plane incident, Congressional sentiment was running strongly toward amendments that would lessen restrictions and align our trade posture toward the U.S.S.R. with that of our allies.

That process should go forward, because to date we have been hurt more than our adversary by our on-again, off-again grain sales and exports of equipment.

Let's review the history.

In 1972, the Nixon Administration encouraged U.S. farmers to greatly increase production of corn, wheat and soybeans, with the promise of export markets—including, importantly, the Soviet Union—for the surplus grain thus created. But as we later embargoed grain shipments, we found our allies rushing into the breech. Now we've reached the ludicrous point where a variation on the Depression-era soil bank, called Payment In Kind, is not only costing our Treasury about $2½ billion in support payments, but has created an umbrella price for grain sales to the Soviets by our allies Canada, Argentina, Australia and France.

In 1978, in response to the jailing of Soviet dissidents Alexander Ginzburg and Anatoly Scharansky, President Jimmy Carter cut off sales to the Soviet Union of Caterpillar Tractor's road-building and construction equipment. But Japan's Komatsu Inc. quickly supplanted Cat in supplying 85% of the Soviets' $100 million a year in purchases, and inherited by default a roughly $500-million order for pipe-layers for the Soviet gas pipeline to Western Europe.

We also banned sales of oil-field equipment to the Soviets, the world's largest oil producers, and handed an opening to European and Japanese competition.

The sad fact is that while our embargoes have undermined our reputation as reliable suppliers (a claim our competitors are using against us in all markets), they have done nothing to undermine the Soviet military's hold on its own people, or on Afghanistan or on Poland.

So what should we do now?

We should reach a firmly agreed upon Western policy on trade with the Soviet Union, which can be expansive but need not be mindless of Soviet offenses. Trade is not a cure-all, but it can help to bring the Soviet renegade into the community of nations. Equally important, it can

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BACKGROUND INFORMATION

James Flanigan

Continued from First Page

provide the West a weapon stronger than words but safer than missiles for times, like the present, when Soviet conduct cries out for chastisement.

But we must have our allies' help in loading the weapon. Penelope Hartland-Thunberg, a senior fellow at the Georgetown Center for Strategic and International Studies, suggests that the nations of the West devise a scale of joint responses to potential Soviet offensive actions. Then, if there is to be a denial of spare parts for trucks or even for computers, the action can be universal and effective.

Most of all, we should be clear about the effect of economic development on the Soviet Union. There was a false assumption that, with development, the Soviets would become more comfortable and therefore peaceable. The assumption said the world is governed by riches, when in fact it responds to something much deeper. We should keep in mind that we are not democratic because we are economically strong; we are strong in large part because we are democratic. The Soviets, too, have political imperatives that will be maintained despite serious economic hardship.

Our trade policy with Moscow should be practical and businesslike, not based on transcendental visions of change. To the extent that the Soviets have resources to pay a full and fair price for the goods we sell them, our society gains from making the sale. To the extent that a greater flow of commerce and diversification of industry makes the Soviet economy more decentralized and its society a bit more democratic, that is an additional benefit. We have nothing to fear economically from Soviet development, but we have everything to fear politically and militarily from a backward and envious Soviet Union

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BACKGROUND INFORMATION

Teachers may wish to consult the following references which were used in preparing this lesson:

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INTERNATIONAL TRADE: U.S./U.S.S.R.

Student Materials

Author: Phyllis F. Maxey
Business Issues in the Classroom
Constitutional Rights Foundation
Los Angeles, California
1983

INTERNATIONAL TRADE: U.S./U.S.S.R.

As American consumers we have access to a wide range of products made in Japan, Canada, West Germany, the Philippines, Mexico, and countries all over the world. But how many items in your home are from the Soviet Union (U.S.S.R.)? Probably very few unless you have Russian family ties or have travelled in that part of the world. The Soviet Union is an enormous country, two and a half times the size of the United States. It is an industrialized nation, rich in natural resources. Yet less than 1% of the $500 billion of U.S. international trade in 1981 was with the U.S.S.R. Why is this so?

In this unit we will examine the barriers that restrict trade between the United States and the Soviet Union. You will have an opportunity to evaluate an American policy decision to use international trade as a political weapon. You will discover why nations trade with each other and how and why governments intervene in such trade. You should gain a better understanding of the economic and political differences among nations which create international cooperation as well as conflict.

This unit includes the following activities:

1. TWO CASE STUDIES: U.S. and U.S.S.R.
2. READING: International Trade
3. READING REVIEW: Questions to Answer
4. MAP STUDY
5. ACTIVITY: Profile of the Soviet Union
6. READING: The Soviet Economy
7. ACTIVITY: A Pipeline from Russia to Europe
8. VOCABULARY REVIEW

THE CASE OF LISA IVANOV, Soviet Businesswoman

Lisa Ivanov was a successful Russian business woman. She began her career by investing her small savings account in the purchase of such products as sunglasses, jeans, T-shirts, watches, cameras, lingerie, chewing gum, and wigs. These scarce consumer goods were in great demand in the Soviet Union because the government devoted its resources to agriculture and industry. Very few "luxury items" were produced or imported. Lisa used her contacts both inside the country and in Western Europe and the United States to obtain these illegal consumer goods. She became part of the underground economy in the Soviet Union, buying and selling goods that Russian consumers wanted, but that the government declared illegal. Lisa did so well that she expanded her sales to a mail order catalogue, greatly increasing her customers.

The Russian government, which often ignored the underground economy, took action to stop this successful business. Lisa Ivanov was found guilty of the criminal act of speculation and sentenced to 12 years in prison. She was lucky; the maximum sentence for such a crime is death.

THE CASE OF HARRY HOPKINS, American Businessman

Harry Hopkins jumped out of his chair and stabbed his finger at the map on the wall. Hopkins was Chief Executive of the Twin City Barge Company in St. Paul, Minnesota. "What happens in Moscow determines our fate," he declared. The barge company was in financial trouble. Business was declining and he blamed the President of the United States.

President Carter had just declared an embargo on all grain shipments to the Soviet Union. Shippers like Harry Hopkins, as well as farmers, would suffer from losing this important international customer. The Soviet Union often had to import grain, and America had a surplus of grain to sell. The U.S. President stopped all grain shipments to the U.S.S.R. for political rather than economic reasons. The Soviet Union sent troops to Afghanistan and now Russian troops occupied that country. Harry Hopkins was worried. "If the Russians don't

withdraw their troops, we'll have to pray that this company survives until a new president is elected or a new policy comes from Washington."

Harry had to wait two years. In 1982 the embargo was lifted by President Reagan. The Russians were still in Afghanistan, and Harry Hopkins was still in the barge business.

DISCUSSION QUESTIONS

1. What was Lisa Ivanov's crime? Would her actions be legal or illegal in the United States? What could she do about her disagreement with the government?
2. Why did the President place an embargo on U.S. shipments of grain to the Soviet Union?
3. Harry Hopkins opposed the U.S. embargo. What could he do about his disagreement with the government?
4. What is an "underground economy"? Does the U.S. have one?
5. Why does a government want to control what products come into the country and what products are shipped out for sale to other countries?

INTERNATIONAL TRADE

If we look at a political map of the world, we can find hundreds of divisions called nation-states. Each of these nations has natural resources, a particular climate, and a level of industrial development which encourages specialization in certain products. Each nation also has scarce or nonexistent resources, and needs to trade with others to obtain such products. For example, West Germany imports most of its food, and sells its machinery, tools, and chemicals to other nations. Brazil exports food and imports manufactured goods. Imports are goods and services purchased from foreign countries. Exports are goods and services sold to foreign countries.

The economic law of comparative advantage states that each region will tend to produce those goods and services in which it has the greatest advantage and the least comparative disadvantage. The advantage may come from a warm climate, a highly educated work force, or the oil and coal reserves. We can see such specialization within our own nation. States such as Florida, Texas, and California have the advantage of a climate well-suited to growing fruits and vegetables. It would be expensive and difficult for a farmer in Kansas to grow these products. Kansas specializes in wheat farming because of its particular soil and climate. When each area produces according to its advantage and sells the surplus, everyone can benefit from more goods at lower costs.

But trade must flow two ways. Imports and exports should balance over the long run. A country that always buys but never sells will have no money to pay for its imports. This is called a "balance of payments" problem. A country that falls into debt to other countries must seek loans from international organizations or wealthy nations, or pay out gold to balance its payments. Trade between nations with differing customs, currencies, and languages is certainly not as easy as trade between Kansas and California. But despite the difficulties, all nations trade with others. For some, such as West Germany, England, and Japan, international trade is a critical part of their economies. For some larger countries, international trade plays a less dominant role.

Government Trade Controls

As we can see in the two introductory case studies about Lisa Ivanov and Harry Hopkins, business people are affected by the actions of their own nation as well as others. The United States and many other countries in the West provide a great deal of freedom for business and consumers. The proper role of government is seen as fostering a healthy economic environment, and allowing most decisions to be made by buyers and sellers in the marketplace, not by government.

In the Soviet Union the entire economy is controlled by the government. The Soviet Planning Committee and the Foreign Trade Ministry are government groups that determine the amount and content of international trade. They decide which imports are most needed in the Soviet Union, and which Russian goods can be sold to greatest advantage abroad. Government planning takes the place of the individual decision-making characteristic of market economies. American businesses that export to the Soviet Union do not deal directly with Russian business people or companies; they work through the Soviet government.

Although the United States does not have a planned economy, the government does intervene in the free market system. We have seen in the case of Harry Hopkins that the U.S. government placed an embargo on the sale of wheat to the Soviet Union. The embargo is an example of a trade control used by government. In this case trade was used as a political weapon to punish actions taken by the U.S.S.R. Another government control on trade with the Soviet Union is the export license. Export licenses must be obtained before goods are shipped from the U.S. to other nations. Customs officials inspect shipments upon departure and arrival. The United States will not issue export licenses to the Soviet Union for certain kinds of products, including plastics, sophisticated electronics gear, arms, and ammunitions. This is called a "selective embargo." In some cases, the U.S. has imposed a total embargo, stopping shipments of any kind. In the past, total embargoes have been used against North Korea, North Vietnam, Cuba, and Cambodia.

Governments also use tariffs which are taxes placed on imports. They are used for several reasons. Tariffs raise the price of foreign goods. In doing so,

they may protect domestic (home) industries and workers' jobs by making domestic and foreign products competitive in price. Tariff protection has also been used for military reasons, to protect essential domestic industries needed during wartime.

Tariffs are also used to protect nations against an international trade practice known as "dumping." Country A sells steel to Country B at a price below the cost of producing that steel. The steel industry in Country A receives a government subsidy (payment) so that they are able to sell their products at a loss. Lower prices are thus not due to greater efficiency but to government support. Country B might place a tariff on steel from Country A to protect its own steel industry which is not benefiting from government assistance.

Quotas and sanctions are other tools government uses to control international trade. Quotas limit the amount that can be imported or exported. Sanctions are penalties, such as fines, against a business which has violated government policy or a country's laws.

Who Resolves the Conflicts?

When nations accuse one another of unfair trade practices, such conflicts may be resolved by the nations themselves, by changes in the world economy, or by international organizations such as the United Nations. Meetings of representatives from many nations provide for regular discussions and airings of grievances. Agreements are made which reduce restrictions on trade and aid economic growth. Of course, the conflict may not be resolved, and trade wars or military conflict may result.

An important organization in resolving such conflicts is the General Agreement of Tariffs and Trade (GATT). Formed in 1947 by 23 countries, GATT now has a membership of 88 nations who meet periodically to hammer out new policies and rules. The International Monetary Fund, the World Bank, the U.S. Import-Export Bank, specialized United Nations organizations, and individual conferences are other groups that play an important role in international trade.

There are also important regional trade associations. One of the most highly organized is the European Economic Community (EEC), also known as the Common Market, in which Western European nations have joined together to reduce trade barriers among themselves. The "West" is a term used to refer to countries with market economies and democratically elected governments. Another Western organization is the OECD, Organization for Economic Cooperation and Development. Its members are:

Australia	Austria	Belgium
Canada	Denmark	Finland
France	West Germany	Greece
Iceland	Ireland	Italy
Japan	Luxembourg	Netherlands
New Zealand	Norway	Portugal
Spain	Sweden	Switzerland
Turkey	United Kingdom	United States

The "East" refers to communist countries with centrally planned economies. They belong to the Council for Mutual Economic Assistance (COMECON, sometimes referred to as CMEA). Its members are:

Bulgaria	Cuba	Czechoslovakia
East Germany	Hungary	Mongolia
Poland	Romania	U.S.S.R.*
Vietnam		

*Union of Soviet Socialist Republics

READING REVIEW

To check your understanding of the reading, answer the following questions:

1. What are exports? imports? What goods cannot be legally exported to the Soviet Union?
2. What is the law of comparative advantage?
3. Can an American company buy and sell directly to a Russian business?
4. What is a tariff? Why do governments use tariffs?
5. In addition to tariffs, what other tools does government have to influence international trade?
6. Is U.S. international trade controlled by the U.S. government? Explain.
7. What is GATT?
8. What is the EEC?
9. What is "the West"? What is "the East"?
10. Who are the members of the OECD?
11. Who are the members of COMECON?
12. Why do nations trade with other nations?

MAP STUDY

1. Using a world map, find the location of each of these places:

Western Europe	China
Eastern Europe	Poland
U.S.S.R. (Soviet Union)	Czechoslovakia
United States	East Germany
Latin America	Hungary
Asia	Romania
Africa	Bulgaria
Japan	Albania
North Korea	Cuba
Vietnam	Yugoslavia
Greece	West Germany
Italy	Canada
Iceland	Belgium
Ireland	Austria
Luxembourg	Netherlands
Denmark	Great Britain
France	Moscow
Washington, D.C.	Minneapolis, MN
Kansas	Florida
California	Texas

2. Which places are classified as "the East"?
3. Which places are classified as "the West"?
4. Which places are in the United States?
5. Which places are cities?

PROFILE OF THE SOVIET UNION

The Soviet Union and other communist countries have strong national governments who control the economic and political lives of their citizens. Communist doctrine teaches that capitalism is a destructive system that is operated to benefit the few. Under communist governments the Western institutions of private property, individual freedom, and economic inequality, are abandoned. A strong central government owns and controls all property on behalf of the people. The government owns the banks, the farms, the railroads, the telephone systems, radio and television broadcasting, mines, factories, office buildings, and stores. The government decides what wages people will receive for their labor and what prices, quantities, and types of consumer goods will be available to Russian consumers. There are startling contrasts between American lifestyles and life in the Soviet Union.

In the charts on the next few pages, we can discover how important U.S./U.S.S.R. trade is compared to trade with other nations. Both of these countries are world leaders with advanced industrialized economies. There is another group of countries who fall into the category of "developing countries." These developing countries have a variety of political systems, including military dictatorships, democracies, and communist governments. Most are still in the process of changing from reliance on hand labor to machine labor, and their people are striving to attain the standard of living of the industrialized world. Many countries in Latin America, Africa, and Southeast Asia fall into this category. Japan, Canada, Western European nations, the United States, and the Soviet Union are examples of industrialized nations.

Examine Tables 1 - 5 on pages 11-12 and then take the Fact Quiz to test your skills in reading these economic statistics.

Table 1

U.S.S.R. MAJOR TRADING PARTNERS 1980	
Communist countries	54%
Industrialized West	33%
Developing countries	13%

Source: World Factbook, 1982, Washington, D.C.

Table 2

U.S.S.R. FOREIGN TRADE WITH THE INDUSTRIALIZED WEST: Selected Countries 1981		
Exports	Country	Imports
6.0%	West Germany	4.5%
4.0%	Finland	5.0%
1.0%	Japan	4.0%
.5%	United States	4.5%

Source: United States Department of Commerce, 1982

Table 3

U.S. MAJOR TRADING PARTNERS 1981		
Exports	Country	Imports
16.0%	Canada	17.0%
23.0%	EEC*	16.0%
9.0%	Japan	13.0%
13.0%	LAFTA**	11.0%
7.0%	Mexico	5.0%
3.0%	Communist countries	.5%

* European Economic Community

**Latin America Free Trade Association

Source: World Factbook, 1982, Washington, D.C.

Table 4 U.S. EXPORTS TO U.S.S.R. (millions)

Food	$ 1,600
Machinery	301
Chemicals	180
Fuels, lubricants	63
Crude materials (not fuel)	59
Animal, vegetable oils	56
Manufactured goods	32
Other exports	48
Total exports to U.S.S.R.	$ 2,339 million

Table 5 U.S. IMPORTS FROM U.S.S.R. (millions)

Fuels, lubricants	$ 112
Chemicals	94
Manufactured goods	88
Crude materials (not fuel)	18
Beverages, tobacco	6
Food	3
Machinery	2
Other imports	24
Total imports from U.S.S.R.	$ 347 million

Total United States International Trade, 1981 . . $ 490 billion

Total Soviet International Trade, 1981 . . . . . $ 153 billion

Source: United States Department of Commerce, 1981

FACT QUIZ

Test your skill at reading tables 1-5 by answering the following true/false questions. Write in the correct answer when an item is false.

Put T or F in the space provided at the left of each item.

_____ 1. Most Soviet trade is with other communist countries.

_____ 2. Most U.S. trade is with non-communist countries.

_____ 3. The Soviet Union sells more to the U.S. than it buys from the U.S.

_____ 4. U.S./Soviet trade is a small part of international trade for both countries.

_____ 5. One of the most important products the U.S. buys from the Soviet Union is machinery.

_____ 6. Food purchases account for $1.6 billion of U.S. exports to the Soviets.

_____ 7. An important Soviet trading partner in Western Europe is West Germany.

_____ 8. The single country with which the U.S. does the most trade is Japan.

_____ 9. In its trade with the West, the Soviet Union deals primarily with the United States.

_____10. Less than 5% of U.S. imports come from developing countries.

_____11. The EEC is an organization of countries in Latin America.

_____12. The U.S. imports less than 1% of its total world trade from communist countries.

_____13. The U.S. exports more to Japan than it imports.

_____14. The U.S.S.R. exports more to Japan than it imports.

_____15. Trade with the industrialized West makes up a larger part of Soviet international trade than trade with developing countries.

THE SOVIET ECONOMY

The Union of Soviet Socialist Republics (also called the Soviet Union or Russia) is the largest country in the world. It occupies 15% of the land surface on our planet and is two and a half times the size of the United States. Along with the U.S., the Soviet Union has tremendous military and nuclear capabilities. But it differs from the U.S. in its political and economic systems. The Russian Revolution of 1917 established a communist nation in Russia, following the ideas of Karl Marx and Vladimir Lenin. There is only one political party and no free elections. Party members hold all important posts, including positions in the Central Committee and Gosplan, the agencies that plan most economic activity in the Soviet Union.

Despite its great size and power, this communist nation has serious economic difficulties. The Russian economy has been described as having the worst marketing and distribution system in the world. Goods are produced in one place, but never get shipped to other places where they are needed. The products made in Russia have an international reputation for poor quality and lack of style. The labor force is still heavily tied to agricultural production and scarcity of food is a recurring problem. The demand for consumer goods is very high, but the nation's resources are first devoted to agriculture, industry, and military production. An illegal underground economy that produces consumer goods exists alongside the dominant system. Even in the priority sectors of the economy, there never seem to be enough resources to do the job. Time recently described the production problems of Russia as the result of the government rewarding quantity rather than innovation and quality:

> The Soviets have, in effect, created an economic system that values the production of 100 clunking breakdown-prone trucks more highly than that of ten smoothly running ones, simply because the plan demands higher unit production and makes no allowance for quality.*

*"Inside the U.S.S.R.," Time, January 23, 1980, Vol. 115, 25, p. 49.

The "plan" referred to in the quotation is a one-year plan for all businesses in the Soviet Union. There are no stockholders and little privately owned property in Russia. The government holds all economic resources in the name of the people. The Council of Ministers is responsible for the monumental effort of planning the wages, production, inputs, and outputs for 350,000 businesses in the U.S.S.R. Production targets are broken down into quarterly and monthly figures that are to be fulfilled by every plant manager in the country.

International trade is conducted by the Foreign Ministry on behalf of the various industries. Such trade makes up a very small percentage of the economic transactions in the Soviet Union, but in the last decade, the emphasis on trade with the West and Japan has been growing. The Soviet Union needs to import food and high technology goods. As a leading producer of petroleum and natural gas, the Russian government has tried to export these energy resources in exchange for Western food and technology. There is a belief in the U.S.S.R. that Western technology is essential to making the communist experiment a success. Trade with the West is therefore a political priority. Armand Hammer, an American businessman, quoted the former Soviet leader, Nikita Khrushchev, as saying during one of their meetings:

> If we cannot give our people the food, shelter, and cultural benefits that you provide under the capitalist system, we know that communism cannot succeed. However, we are convinced that we can, and our performance over recent years is proof of this. We are perfectly willing to leave it to history as to which system is the best for mankind and which will survive.*

*Bob Considine, The Remarkable Life of Dr. Armand Hammer, New York: Harper & Row, 1975, p. 162.

A PIPELINE FROM RUSSIA TO EUROPE

In this activity you will hear the views of supporters and opponents of a plan to build a natural gas pipeline from Russia to Western Europe. The United States government is considering imposing sanctions against any firm that sells equipment needed by the Russians to build the pipeline. You will decide whether or not such penalties on American and European business are a good or bad policy.

A moderator and ten panel members will discuss their views on the Soviet pipeline to Western Europe. The remainder of the class will be the audience and may ask questions after the panel members have presented their arguments.

Panel members:

- Moderator
- American business executive, producer of oil field equipment
- French government representative
- Italian government official
- British government representative
- Former U.S. Ambassador to the U.S.S.R.
- U.S. State Department representative
- U.S. Senator
- Professor of International Relations
- Chairperson of Foreign Affairs Committee, U.S. Congress
- Undersecretary, U.S. Department of Defense, former head of a high-technology multinational corporation.

VOCABULARY WORKSHEET

Place the correct word next to its definition.

IMPORTS	TARIFF	SANCTIONS
EXPORTS	DUMPING	DOMESTIC
QUOTA	EMBARGO	EXPORT LICENSE

_____ 1. A nation's home-based industries; limited to one's own country

_____ 2. Government-imposed limit on the amount of goods that can be exported or imported

_____ 3. One country sells goods at a price below the cost of production to another country

_____ 4. A tax on imports

_____ 5. Penalties such as tines assessed on businesses that do not follow a nation's policies

_____ 6. Goods and services purchased from foreign countries

_____ 7. Goods and services sold to foreign countries

_____ 8. A permit to ship goods out of the country

_____ 9. Government stops trade in certain goods or stops all trade with a foreign country

Define and give examples of each of the following terms:

	DEFINITION	EXAMPLES
10. law of comparative advantage		
11. The East		
12. The West		
13. Balance of Payments		
14. GATT		